

**LODI CITY COUNCIL
SPECIAL CITY COUNCIL MEETING
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, OCTOBER 30, 2001**

A. CALL TO ORDER / ROLL CALL

The Special City Council meeting of October 30, 2001 was called to order by Mayor Nakanishi at 7:11 a.m.

Present: Council Members – Hitchcock, Howard, Pennino and Mayor Nakanishi

Absent: Council Members – Land

Also Present: City Manager Flynn, Deputy City Attorney Schwabauer, and City Clerk Blackston

B. REGULAR CALENDAR

NOTE: The following four matters were presented, discussed, and voted upon at one time.

NOTE: Due to a potential conflict of interest, Mayor Pro Tempore Pennino abstained from discussion and voting on all four matters below.

- B-1 “Adopt resolution authorizing the City Manager to execute a Master Power Purchase and Sale Agreement between the City of Lodi and the State of California Department of Water Resources”
- B-2 “Adopt resolution authorizing the City Manager to execute Exhibit A of the Master Power Purchase and Sale Agreement between the City of Lodi and the State of California Department of Water Resources”
- B-3 “Adopt resolution authorizing the City Manager to execute Exhibit B of the Master Power Purchase and Sale Agreement between the City of Lodi and the State of California Department of Water Resources”
- B-4 “Adopt resolution authorizing the City Manager and the Electric Utility Director to execute electric energy and natural gas purchases and sale agreements for terms not to exceed 15 years”

City Manager Flynn reported that Electric Utility Director Vallow had informed him that the actions being considered today do not constitute a decision on whether the power plant will move forward. These are preliminary steps only and an item will be brought to Council at a regular meeting, perhaps in January, for a final decision on building the plant.

Electric Utility Director Vallow reminded Council that several months ago a resolution was implemented authorizing the City Manager and himself to act on power purchase and sale transactions. He explained that the resolution for Item B-1 is a master power purchase and sale agreement between the Department of Water Resources and the City. It is a standard document within the industry and establishes commercial terms that exist with contracts. It allows staff to conduct specific transactions, which are then approved by Council.

Mr. Vallow stated that the resolution for Item B-2 is a specific schedule dealing with commercial terms of a power purchase or sale. It is an on peak power sale for fifteen years, six days a week, sixteen hours a day. The City has a resource mix consisting of its own generation and purchased power. Last February a purchase was made from Calpine Corporation for 25 megawatts of power at \$65 a megawatt hour. Since that time the market has moderated because of intervention by the Federal Energy Regulatory Commission. Mr. Vallow explained that the essence of this resolution is that the City can take segments of its power portfolio, supplement it with purchases from the market, and arrive at a lower overall price.

The resolution for item B-3 allows City staff to be involved in the planning process for building a peaking power plant. A number of public hearings will be held and an

independent determination must be made that the project is in the public interest. A gas supply and financing package is needed, which will be brought back to Council.

Mr. Vallow explained that the resolution for item B-4 extends the existing authorization to structure transactions, from ten years to fifteen years. It will allow flexibility in transactions, which exist for Electric Utility due to its resource mix and credit rating.

City Manager Flynn asked Mr. Vallow what would happen if these resolutions were not approved by Council today.

Mr. Vallow replied that the City would run a high risk of losing its transaction with the Department of Water Resources. He expressed his opinion that the power plant is a good opportunity and indicated that it would be in the City's best interest to move expediently in this process.

Addressing Mr. Vallow, City Manager Flynn inquired as to whether any of these resolutions would have to be reversed should a decision be decided later not to move forward with the power plant.

Mr. Vallow replied that none of the resolutions would have to be reversed. Further, he stated that the authorization to enter into fifteen-year transactions was, in his opinion, mandatory.

Council Member Howard stated that it is important to move forward diligently with these discussions and continue with careful analysis and further definition of the terms of the agreement.

Council Member Hitchcock asked if there would be sufficient money from the repayment on an annual basis to pay for financing the power plant.

Mr. Vallow replied in the affirmative and stated that it would generate some margin of positive cash flow.

In response to Council Member Hitchcock's inquiry regarding potential risks, Mr. Vallow answered indirectly stating that the timing for the project is optimal due to historically low interest rates. He added that in his best analysis, it would pay for itself, generate a reasonable margin of return, and provide added reliability to the City. Every financing scenario will be accompanied with a market analysis and a staff analysis.

In reply to Mayor Nakanishi, Mr. Vallow reported that long-term state contracts pay an average of \$74 a megawatt hour, and \$100 to \$110 a megawatt hour for two-year periods.

MOTION/ VOTE:

The City Council, on motion of Mayor Nakanishi, Howard second, adopted the following resolutions by the vote shown below:

Ayes: Council Members – Hitchcock, Howard and Mayor Nakanishi
Noes: Council Members – None
Absent: Council Members – Land
Abstain: Council Members – Pennino

- Resolution No. 2001-243 authorizing the City Manager to execute a Master Power Purchase and Sale Agreement between the City of Lodi and the State of California Department of Water Resources;
- Resolution No. 2001-244 authorizing the City Manager to execute Exhibit A of the Master Power Purchase and Sale Agreement between the City of Lodi and the State of California Department of Water Resources;

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- Resolution No. 2001-245 authorizing the City Manager to execute Exhibit B of the Master Power Purchase and Sale Agreement between the City of Lodi and the State of California Department of Water Resources; and
- Resolution No. 2001-246 authorizing the City Manager and the Electric Utility Director to execute electric energy and natural gas purchases and sale agreements for periods up to fifteen years.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

There being no further business to come before the City Council, the meeting was adjourned at 8:02 a.m.

ATTEST:

Susan J. Blackston
City Clerk